

SBEE Cables (India) Limited

February 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	55.00	CARE BBB; Stable	Reaffirmed
Short-term bank facilities	15.00	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to the bank facilities of SBEE Cables (India) Limited (SCIL) continue to derive strength from its experienced promoters, established track record of operations and diversified & reputed clientele. Ratings consider historically maintained healthy capital structure and adequate funding support from promoters in timely manner. The company has modest scale of operations despite having years of experience. The revenues are expected to improve during FY24 on back of receipt of couple of large orders, though its sustenance remains to be seen. SCIL has also added new product line of 11-KV and 33-KV transmission cables in its product offerings. Although the company maintains adequate liquidity position with minimal reliance on external debt, there has been near full utilisation of working capital (WC) limits in recent months. Timely collection of receivables would be key to company's credit profile.

These rating strengths are partially offset by the susceptibility of operating margins to volatility in the raw material prices although, most of large orders received by the company are covered with price variation clause that insulates the margins to some extent, low return on capital employed (ROCE) levels, elongated operating cycle and highly competitive and fragmented nature of industry.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Improvement in the scale of operations beyond ₹300 crore with profit before interest, lease, depreciation, and taxes (PBILDT) margin above 12% or ROCE above 10% on a sustained basis.

Negative factors

- Any debt-funded capex resulting in overall gearing beyond 1x or interest coverage ratio (ICR) falling below 3x.
- Withdrawal of unsecured loans by the promoters impacting the liquidity profile of the company.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation of the company being able to maintain its improving scale of operations on back of availability of adequate capacity and addition of new customers in portfolio.

Detailed description of the key rating drivers:

Key strengths

Satisfactory capital structure with adequate funding support from promoters

SCIL has historically maintained healthy capital structure with low reliance on WC borrowings and nil term debt. However, WC utilisation has gone up during past few months due to receipt of large orders resulting in company requiring ad hoc limits. Timely receipt of receivables against these orders would be key rating monitorable. Total outside liabilities (TOL)/tangible net worth (TNW) stood at 0.51x as on March 31, 2023 (PY: 0.59X). The company has also received funding support from the promoters in the form of equity as well as unsecured loans. Unsecured loans stood at ₹66.34 crore as on January 10, 2024, of which ₹35.31 crore continues to be subordinated to the bank. CARE Ratings expects that TOL/TNW would remain below unity in near to medium term on back of absence of debt-funded capex plans.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Moderate scale of operations, however, improving trend

The total operating income (TOI) of the company has slightly moderated and decreased by around 8% to ₹161.85 crore in FY23 compared to ₹176.43 crore in FY22. However, during FY24, the company has healthy orders, translating into sales of ₹185.03 crore till January 10, 2024. During FY24, the company is likely to cross ₹200 crore of turnover backed by couple of large orders received. Company was earlier manufacturing wires of 1.1 KV or lesser capacity but has forayed into 11KV and 33KV segment since FY24.

PBILDT margins of the company remained stable and stood at 11.45% in FY23 (10.08% in FY22). The profit-after-tax (PAT) margins improved from 1.41% in FY22 to 2.37% in FY23 on account of optimal manufacturing and selling expenses. However, the margins have slightly moderated during current year on account of competitive pricing offered to newly added customers. CARE Ratings expects that profit before depreciation, interest, and tax (PBDIT) margins would remain in the range of 9%-10%, as the company may consider increasing capacity utilisation by foregoing margins to a certain extent.

Diversified and reputed clientele

SCIL's client base is broadly classified into three segments, viz., tendered customers, original equipment manufacturers (OEMs), and contract basis. The company has a well-diversified and reputed customer base including BESCO, Kerala State Electricity Board, Linxon India Private Limited, Lineage Power Pvt. Ltd, etc. The top five customers contributed to about 36% (PY: 43%) of sales during FY23. The company's ability to acquire new clients and maintain strong relationship with existing customers by timely delivery of the orders and optimally utilise the installed capacity are the key rating sensitivities.

Experienced promoters and management with established track record

The managing director of the company, S Bhawarlal, has been managing operations of the company since its incorporation in 1978 and commands significant industry experience. He is also supported by well-experienced management. Other directors of the company – Dilip Kumar B, Kishore Kumar B, Santosh Mehra (looking after Finance) are actively involved in the company operations and command experience of more than three decades in various industries. SCIL and its promoters have been operating in the cable and lighting industry for more than three decades. Over the years, the company has developed good market image for its products and enjoys long-term relations with most of its clients. SCIL is a pre-qualified supplier (by virtue of having received various product certificates, such as UL certificate [Underwriters Laboratories Inc.], CE certificate, etc. for safety standards and adherence to product specifications) for various Project Management Consultants, Government and Quasi Government Departments (mainly state power utilities), Defence Organizations, ISRO, Railways, National Highway Authority of India, OEMs, etc.

Key weaknesses**Susceptibility of operating margins to volatility in raw material prices**

Copper, aluminium, and PVC (crude-based) are major raw materials of SCIL, constituting around 89% of the total cost of sales during FY23 (PY: around 90%). SCIL imports about 30% of its raw material requirement from Malaysia, Singapore, and UAE, while balance is procured domestically. SCIL procures copper domestically from Toyota Tsusho Asia Pacific Pte Ltd, Vedanta Limited, Bharat Aluminium Company Ltd, Agrawal Metal Work Pvt Ltd, Savli Copper Products Private Ltd, etc. As such, the company's profitability is exposed to volatility in commodity prices as well as foreign exchange rates however, the company has partial hedging mechanism in place. To contain the risk, the company sources majority of its raw materials based on the existing order book position while keeping inventory of about a month in hand. Additionally, the product pricing is adjusted to raw material cost with 15 days or 30 days lag which curtails the volatility to an extent. Most of large order contracts received by the company are covered with price variation clause and increase in raw material prices are proportionally passed on to the customers. In case of long-term government contracts also, SCIL enters a price variation clause to protect its profitability.

Elongated operating cycle

Company's WC cycle has moderated to 120 days in FY23 compared to 83 days in FY22 due to increased collection days and inventory days on account of increasing scale of operations. Nevertheless, the working cycle has remained at 120-130 days historically. Inventory holding period decreased to 62 days in FY22 from 83 days in FY21, respectively, which normalised to 83 days in FY23. Raw material procurements by the company are usually on spot payments or usance of 15 days leading to working capital intensive operations. Current ratio of the company is satisfactory at 2.90x as on March 31, 2023 (PY: 1.77x). The average month-end working capital utilisation remained high at 67.79% for 12 months ended December 31, 2023, with near full utilisation since July 2023.

Highly competitive and fragmented cable industry

Wires and cables market in the world and India are highly fragmented, with the presence of many small and medium enterprises. Over a period, the industry has moved from the unorganised to organised sectors. However, significant portion of this industry is still in the unorganised sector. The wire and cable industry are highly competitive with large players like Havells India Limited and

Anchor Electricals Pvt Ltd. Also, there are several small players operating in the industry with lower entry barriers. A competitive market restricts the company's pricing flexibility and puts a strain on its profitability. SBEE Cables' business profile will remain susceptible to intense industry competition.

Liquidity: Adequate

Liquidity is adequate marked by sufficient cash accruals generation against nil term debt repayment obligation by the company. However, WC utilisation of the company has remained high for past few months for the procurement of raw materials on account of bulk orders received from existing and new customers. The average month-end working capital utilisation remained high at around 67.79% for 12 months ended December 31, 2023. Consistent infusion of unsecured loans by promoters have also aided the liquidity position. The cash and cash equivalents stood at ₹9.0 lakh as on January 10, 2024.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Cables - electricals

Incorporated in October 1978, SCIL was earlier engaged in manufacturing of components for lighting industry by the name of Mahadev Vidyut Udyog Pvt Ltd. In 1995, the company switched to manufacturing of low tension (LT) wires & cables and was rechristened to its current name in 2004. As on March 31, 2023, company has installed capacity of around 375 lakh metres pa for polyvinyl chloride (PVC) wires (copper) and around 20 lakh metres pa of aluminium wires at its manufacturing facility in Harohalli Phase II, Kanakapura Taluk, Ramanagara Dist. Karnataka. The company's product portfolio includes various high-quality cables, such as fire-resistant flexible cables, aerial bunched cables, PVC insulated heavy duty aluminium power cables, copper control armoured & unarmoured cables, submersible cables, etc.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	January 10, 2024 (UA)
Total operating income	176.43	161.85	185.03
PBILD	17.78	18.53	15.44
PAT	2.50	3.84	2.87
Overall gearing (times)	0.27	0.36	NA
Interest coverage (times)	3.81	4.04	4.89

A: Audited UA: Unaudited NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	55.00	CARE BBB; Stable
Non-fund-based - ST-Bank guarantee	-	-	-	-	15.00	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type*	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT	55.00	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Feb-23)	1)CARE BBB; Stable (31-Mar-22) 2)CARE BBB; Stable (05-Apr-21)	-
2	Non-fund-based - ST-Bank guarantee	ST	15.00	CARE A3+	-	1)CARE A3+ (06-Feb-23)	1)CARE A3+ (31-Mar-22) 2)CARE A3+ (05-Apr-21)	-
3	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (06-Feb-23)	1)CARE BBB; Stable (31-Mar-22) 2)CARE BBB; Stable (05-Apr-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - ST-Bank guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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